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TAGS: ECON EFIN PTER PREL IR SP

SUBJECT: IRANIAN TIES OF SPANISH BANKS SANTANDER AND
SABADELL

REF: A. MADRID 286

1B. MADRID 285

1C. MADRID 289

1D. MADRID 294

1E. TD-314/40895-07

1F. TD-314/57798-07

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Classified By: Ambassador Eduardo Aguirre for reasons 1.4 (b) and (d)

11. (S/NF) Summary. The Bank of Spain, Spain's central bank, provided to post on March 7 a document summarizing activities that Bank Santander and Bank Sabadell have had or still have with Iran. The document is based on information the Bank of Spain received from the two banks on March 6 in response to concerns raised by Treasury Deputy Secretary Kimmitt March 5. The document provides the most up-to-date information that any of post's sections has on these banks' relationships with Iranian banks. Bank Santander says it has taken steps to eliminate almost all of its activities in Iran, while Sabadell says it maintains its Tehran representative office in support of Spanish businesses but employs extremely stringent controls to guard against association with sanctioned entities. Para 6 contains the full text of the document. Post is seeking clarification on various points. End Summary.

12. (C/NF) Treasury Deputy Secretary Kimmitt raised in several of his meetings and public appearances in Madrid March 5-7 (reflets) the danger to Spanish banks of maintaining links with Iranian banks. According to the February edition of Bankers Almanac, two Spanish banks, Santander and Sabadell, maintained correspondent relationships with Iranian banks: Santander with the Export Development Bank of Iran, Bank Mell (cited in UNSCR 1803), and Bank Sepah; and Sabadell with the Export Development Bank of Iran and Bank Refah.

13. (C/NF) In Deputy Secretary Kimmitt's March 5 meeting with Bank of Spain (central bank) Deputy Governor Jose Vinals (ref a), Vinals promised to have the Bank's banking supervision office discuss with Santander and Sabadell their relationships with Iranian banks. At a March 6 lunch, the President of Sabadell confirmed to the Deputy Secretary that the central bank had spoken with his bank that morning. On March 7, the Bank of Spain provided post with a document summarizing information that Sabadell and Santander conveyed to the Bank of Spain concerning their ties with Iranian banks.

¶4. (S/NF) This document contains information that is more recent than information post has from other sources, and is fully or almost fully consistent with the earlier information in refs e-f. Santander says it has almost entirely closed down its operations in Iran, save for an account with Iran's central bank (Markazi) and other residual activities. Post is pursuing clarification on these residual activities.

¶5. (S/NF) Bank Sabadell provided the Bank of Spain extensive detail on its controls and its interactions with Iranian banks, including correspondent relationships with more banks than those named in Bankers Almanac, one of which (Melli) was cited in UNSCR 1803. Bank Sabadell continues to operate a representative office in Iran to assist its Spanish clients in their export/import activities, but with what it says are very stringent controls to guard against interaction with prohibited entities. Post is following up to further clarify Sabadell's relationships with Iranian banks.

¶6. (SBU) The informal translation of the Bank of Spain document follows:

INFORMATION COMMUNICATED BY BANK SANTANDER (TO BANK OF SPAIN)

1) For 25 years, Bank Santander has maintained a small Representative Office in Tehran with three or four employees. Currently, the work of the said office is practically null based on the Santander Group's decision in the fall of 2007 to sever business relations with Iranian banks. However, the office has not yet been closed, among other reasons because the representative is still helping them (note: it is not clear who "them" is) to end the activity in an orderly manner.

2) All the accounts with Iranian banks, except Markazi (the central bank of Iran) have been closed. The accounts with Banks Sepah and Saderat were closed down in April, 2007, and the rest of the accounts were closed before the end of 2007. In the case of Bank Sepah,

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Sepah's funds were frozen, based on EC Rules 423/2007 of April 19 and 441/2007 of April 20. SEPBLAC (Spain's FIU) and the Ministry of Economy and Finance's Directorate General of the Treasury were promptly notified of these actions.

3) In the past, (Santander) operations were always entirely commercial in nature and practically all covered by CESCE (Spain's official export credit guarantee company). Additionally, there were interbank deposits primarily from bank Markazi with Santander's treasury in Madrid. Santander's decision taken the last quarter of 2007 was to reduce to zero commercial activity with Iran, including deposits and any other services. The deposits, including those from bank Markazi, have not been renewed past their expiration dates. Operations were always subject to money laundering and terrorism finance prevention procedures. Currently, supervision of residual banking activities is being undertaken with extreme care.

4) There are some long-term operations that still exist that were initiated before the decision to cut ties with Iranian banks were made and that cannot be cancelled.

5) Between August 2006 and April 2007, Santander exchanged numerous letters with the SEC (Division of Corporate Finance - Office of Global Security Risk) in which Santander gave detailed information about its representative office and about its activities in Iran. The SEC initially requested that Santander's 20-F include a warning notice about its relationship with certain (Iranian) banks. Finally, when Santander decided to cut relations and shut down the accounts of Sepah and

Saderat, the SEC appeared satisfied with this action and it was deemed unnecessary that Santander include a notice in its 20-F.

INFORMATION COMMUNICATED BY BANK SABADELL

Representative Office in Iran

Banco Sabadell has a representative office in Iran, located at Ahmad Ghasir, Bucarest Ave, Tehran. On October 2, 1998, Bank Sabadell applied to Bank Markazi Jomhouri Islami Iran to open the office, and it was approved on November 2, 1998. The office was officially inaugurated on November 1, 1999.

The mission of the branch is to assist solvent and well-known Spanish businesses - businesses that are clients from (Bank Sabadell's) domestic network in Spain - in their efforts to develop foreign trade with Iran. (following sentence underlined) A representative office does not undertake any type of banking operations.

The office develops commercial activities with:

- Spanish businesses with affiliates in Iran
- Spanish businesses exporting products and/or services to Iran
- Spanish businesses importing Iranian products or services
- Spanish businesses without a permanent physical presence in Iran during their business trips to Iran

The services offered are:

- Advising clients on their official credit projects
- Assistance with commercial financing
- Banking advice related to foreign investment
- Local support to Spanish businesses participating in sectoral or multi-sectoral commercial missions
- Monitoring and coordination of business of clients in Iran

Type of Operations Conducted by Bank Sabadell

Based on a very restrictive framework of the operations that any relationship with Iran can have, Bank Sabadell has limited its operations to those transactions (following phrase underlined) in which at least one of the parties involved is a direct and known client of Bank Sabadell itself. In other words, Sabadell does not carry out any kind of operation between persons or entities if none of

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them are its clients. The funds movements the Bank can carry out consist solely of debiting or crediting the account of a client. (following sentence underlined) This restriction is applied rigorously to the correspondence regime, and Sabadell rejects payment orders to non-client third parties.

Of those client activities centered on export and import, the majority (about 92 percent during 2007) (following phrase underlined) are import payments for petroleum from a large Spanish petroleum company.

Controls

The following controls are applied to all operations:

- 1) Comparison of the parties involved in a given operation with the lists of blocked persons and entities. The lists used for this purpose are the OFAC, UN, and EU lists, which are periodically updated. Sabadell's Compliance Office monitors on a daily basis new measures and legislative actions relating to Iran at both the

national and international (United States, EU, and UN) levels.

Any type of relationship with entities on the abovementioned lists were cancelled whenever they occurred.

2) For each documented operation, a certification is required from the client of the Bank that is the importer or exporter, in which it is expressly stated that the said merchandise is not subject to any restrictions or limitations, nor on the list of merchandise prohibited by regulations published by the European Union and other international organizations.

3) Additionally, a new control was recently added and is already in the execution phase: for clients that maintain relationships with Iran, Bank Sabadell applies heightened scrutiny and attention with regards to the following areas: (i) knowledge about the Banco Sabadell client (ii) knowledge about its Iranian counterpart, (iii) knowledge about the commercial relationship and the destination of any goods that may be exported; and (iv) knowledge by our client is aware of the applicable norms related to commercial operations with Iran.

Periodically, Bank Sabadell conducts a follow-up on clients that have had operations with Iran for an amount greater than 15,000 euros (annually) and ensures that these clients have been subjected to the rigorous scrutiny discussed in the paragraph above.

4) The SIOPEIA anti-money laundering system of investigating suspicious operations also provides a greater penalty for all those operations in which an Iranian person or entity (national or resident) may be involved.

All these measures are subjected to constant review to update them in compliance with new developments or new legislative measures.

Chart Received From Bank Sabadell On Correspondent Relationships

Correspondent Relationships with Iranian Banks as of March 6, 2008

VOSTRO Accounts (Also implies exchange of SWIFT codes)

-Bank Markazi Jomhouri Islami Iran
Currency: USD/EUR
Blocked: operative block* since 1995

-Export Development Bank of Iran
Currency: USD/EUR
Blocked: operative block since 1995

-Bank Refah Kargaran
Currency: EUR
Blocked: operative block since 1995

-Bank Melli Iran
Currency: EUR
Blocked: operative block since 1995, total block for new operations since mid-2007

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-Bank Mellat
Currency: EUR
Blocked: operative block since 1995, total block for new operations since mid-2007

*Note: Under an operative block, operations can not occur automatically. A special authorization is required for any operation to occur.

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